

SYDNEY METROPOLITAN AIRPORTS BUSINESS COUNCIL INC

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Ms Margaret Arblaster
General Manager – Transport and Prices Oversight
Australian Competition and Consumer Commission
Submitted by email

10 September 2004

Dear Ms. Arblaster,

The Sydney Metropolitan Airports Business Council (SMABC) represents commercial and private general aviation operators and tenants on Bankstown and Camden Airports. On their behalf I submit the SMABC response to the issues paper on Airservices Australia Draft Price Notification. As far as possible the response is in the format requested by ACCC.

It should be noted that the SMABC response concentrates on the effect of increased Terminal Navigation Charges at Bankstown and Camden Airports. However, these comments are largely also relevant in regard to all other general aviation airports. A brief comment on ARFF charges is also found at the end of this submission.

If you require any further information please do not hesitate to contact me.

Yours sincerely,

Barry Thompson
Chief Executive Officer

Response by the Sydney Metropolitan Airports Business Council to the Airservices Pricing Submission. – September 2004

Consultation Processes

SMABC believes that the level and type of consultation by Airservices (AsA) with the general aviation industry was very poor.

An examination of the AsA web site shows that no representative of the general aviation sector appears to have attended any of the four meetings held with AsA to discuss long term pricing policies. The AsA submission agrees (page 10) that “representatives of regional and general aviation had been difficult to engage early in the process and were not satisfactorily represented by the Industry Steering Committee.”

AsA attempts to remedy this situation do not appear to have been very successful if the single meeting held at Bankstown is an example. Totally inadequate and incomplete notice of the meeting was given to operators with a significant number of them finding out about the meeting only by word of mouth on the day of the meeting, or even a day or two after the meeting was held.

The information distributed by AsA at the meeting addressed only the matter of AsA costs and did not address any pricing policies. It can be no surprise that the attendees at the meeting were very antagonistic to the AsA presentation. AsA representatives at the meeting claimed that they were unable to discuss pricing policies because they were prohibited by Government and Australian Competition and Consumer Commission (ACCC) policies which would need to change before alternative pricing policies could be discussed.

They claimed that policies and actions needing change included the following –

- ACCC demands that there could be no cross subsidies between the various activities of AsA
- Government, and presumably AsA Board requirements that there must be 100% recovery of all costs including a mark up for profit
- AsA inability to consider new approaches such as “basin” pricing

No information was given on probable prices and pricing policies and, prior to the receipt of the ACCC paper, no information on pricing policies has been given to SMABC or operators on Bankstown Airport, despite SMABC requesting that the industry be accorded an additional chance to comment on such policies prior to them being submitted to ACCC.

SMABC and Bankstown operators are very angry that after requesting such advice and further consultation this was not provided. SMABC however notes that on page 29 of the AsA

submission, AsA states, in regard to basin pricing, that “This principle has been agreed, after extensive consultation with the major airlines whose costs will increase as a result of this approach”.

SMABC requires to know why AsA could consult with the airlines on this pricing policy, and not with general aviation, whose increase in per tonne costs will be greater under the proposal than is the case for airlines. It is noted that the increase in costs over the five year period for general aviation is equivalent to a 71% increase versus a 16.8% increase for Sydney Airport. This is not acceptable to operators on Bankstown or Camden Airports.

Risk sharing arrangements

SMABC believes that the forecast activity levels are extremely optimistic, especially given the propensity of AsA, BAL and CASA to increase charges which the general aviation industry can not absorb. There is no information available which justifies forecasting increased levels of activity. Rather all forecasts prepared by the general aviation industry show that the greater likelihood is for activity to decrease in the short and medium term, and the industry is very reluctant to forecast long term trends.

In fact SMABC does not believe that the AsA submission does in fact contain any risk sharing on AsA’s part. On page 5 of the submission AsA notes that prices may be reviewed by the Industry Steering Committee, on which the general aviation sector is inadequately represented, should factors such as “activity levels deviate materially from the levels underpinning this proposal.”

SMABC would feel more comfortable if AsA at any point in the submission had undertaken to adjust its activities and cost basis to that which reflects more closely the level of activity of the aviation industry. Instead the clear implication of the submission is that any such response will be driven by the need for AsA to retain revenues, rather than reduce costs.

Operating costs

SMABC notes that it is not possible for AsA to ‘break even’ in regard to costs and revenues at Bankstown and Camden airports even if AsA labour charges were reduced by 50% through reduced manning or reduced hours of operation.. Indeed there is no single or group of costs which can be reduced which will result in a price which the general aviation sector can afford on a sustainable basis. AsA must recognise that its costs in providing this service are so much greater than its ability to recover those costs from the general aviation sector.

Rather than merely seeking to increase prices for current services, Airservices should consult with the general aviation industry to see if there are ways by which appropriate levels of safety (presumed to be the rational for control towers) can be achieved by other means at significantly lower cost to Airservices and the general aviation industry.

Prior to such consideration AsA and Government should agree that such services must be subsidized by other AsA revenues or Government subsidy where Government or AsA policy supports the retention of otherwise uneconomic facilities.

SMABC must also record its concern about the accuracy of AsA figures central to the costing and pricing decisions, and the wide variation in costings presented for the different airports around the country. Detailed explanations for varied staffing numbers, hours of operations, the application of overhead charges and aircraft activity are necessary before SMABC accepted that AsA done its sums correctly.

It is also noted that on page 32 of its submission, AsA attempts to calculate the effect of the propose increases on ‘changes in ticket prices’ for aircraft with a maximum take off weight (MTOW) of greater than 2.5 tonnes. SMABC would like to see details of how AsA has made those calculations.

It is also noted that no figures are reported on cost increases for general aviation aircraft with MTOW of less than 2.5 tonnes which comprise the majority of aircraft which operate from Bankstown and Camden airports. SMABC would greatly value seeing such calculations.

On page 4 of its submission AsA notes that the proposed overall increases are only 1.7% or a reduction in real terms. The comments made above clearly show that this is not the case for airports such as Bankstown and Camden where the increases are far in excess of the forecast inflation rates.

Capital expenditure

SMABC rejects the proposed expenditure of \$4 million on a new control tower at Bankstown. Many operators argue forcibly that there is no need for the current towers at Bankstown, Camden and several other airports. If AsA requires a new tower because they wish to relocate the existing tower, or because the Bankstown Airport Limited (BAL) master plan requires the tower to be moved, then SMABC believes that either AsA or BAL should pay for the tower and neither should attempt to recover their costs in any manner from the aviation industry which sees no need for a new tower, or even the existing tower.

SMABC is also concerned that in the absence of sufficient detail of how capital expenditure is allocated in the “basin” formula it may be that capital expenditure at Sydney Airport, for the benefit of operators at that airport, may result in an increase in charges at Bankstown or Camden airports.

Asset base

SMABC rejects the proposal that AsA can write back assets which have been written off in 1999 of almost \$100 million because these assets were loss making at that time. AsA should not then

be able to recover the resulting increased book costs from the aviation industry. Competitive pressures make such a move economically impossible for GA operators.

Furthermore if these assets were again to become loss making will AsA then seek to write off these assets again, and perhaps write them back again if the assets again become profitable. The general sector believes that this potential seesawing of asset values would not contribute to long term stability in AsA pricing.

Rate of return

SMABC cannot see how gradually increasing AsA's WACC will provide any incentive for AsA to become more productive. The general aviation industry has become somewhat cynical about AsA efficiencies and believes that any increase in AsA's WACC is more likely to lead to increase prices rather than improved efficiencies.

Whilst it is difficult to accurately estimate the WACC for the general aviation sector because of the very diverse capital structures used, it is considered that for the general aviation sector the WACC is lower than the 9.75% figures reported in the AsA submission.

Activity forecasts

As stated earlier, SMABC believes that the forecast activity levels are extremely optimistic, especially given the propensity of AsA, BAL and CASA to increase charges which the general aviation industry can not absorb, and which have already seen significant reductions in activity levels. The activity trend on almost all GA airports, and certainly on Bankstown and Camden airports, shows a sharp and continuing decline in movements.

If this trend continues, and the industry believes that it will, SMABC must express its concern that AsA will attempt to increase prices to maintain its revenue. This must then surely lead to a further decline in the industry which may be used as a factor by Airservices to seek even higher prices in the future. Airservices does not indicate how the overall cost of its provision of services to the general aviation sector is sensitive to the activity levels of that sector.

Allocation of indirect costs

There are arguments to support "tonnes landed" as the means of cost allocation. Others may argue that "movements", "passengers carried" or "tonnes of freight carried" are to be preferred. Unfortunately none of these measures accurately portrays general aviation's "ability to pay". SMABC would like to have further discussions with AsA and/or ACCC on this matter.

'Basin' approach to terminal navigation costs

SMABC is pleased that AsA at least listened to the points made at the meeting of Bankstown Airport where operators stated that if terminal navigation services were to be applied at 'basin' airports, then costs should be applied on a "basin" approach. SMABC nonetheless seeks additional discussion with AsA to ensure that this approach has been applied correctly in the AsA submission. SMABC notes that this process results in a one off increase for Sydney Airport of 15.6% whilst at the same time resulting in an initial increase of 16.8% for Bankstown and Camden airports followed by a 10% per annum increase for the next four years. This is equivalent to an increase of 71% over the five years. The net effect is that terminal navigation at Sydney Airport in five years will be \$5.57 per tonne but \$12.69 per tonne at Bankstown and Camden.

Timing of price increases

SMABC appreciates the phasing in of proposed price increases, as there can be no doubt that the general aviation sector is not able to absorb the total cost increase of the proposed magnitude in one or two years. SMABC continues to raise its concerns about the quantum of such increases and the impact these will have on the financial viability of GA operators.

Impact on users

SMABC is very concerned that the AsA proposals come at the same time as BAL is increasing lease rentals and aircraft parking charges, and demanding payment for land tax. We also note that CASA increased most of its charges by 100% in July 2004. Almost all GA operators are unable to generate additional revenue to meet these huge increases in costs, especially against the background of decreasing levels of aviation activity.

ARFF

SMABC notes that many of its members operate to and from all other airports listed in the AsA submission and therefore expresses its concern at the forecast increase in ARFF charges. There is great variation in the charges at the different airports at the end of the five year forecast period with the minimum charge of \$1.04 at Sydney and the maximum charge of \$22.39 at Maroochydore. Whilst understanding that AsA is required to provide these services in accordance with safety directives, SMABC should examine all means by which such variations can be minimized, e.g. manning levels, hours of operation etc.

Enroute Charges

As many of SMABC's members utilize the enroute services provided by AsA, the proposed reduction in enroute charges is welcomed. However it must be stated that these small reductions do little to reduce the overall impact of the proposed increases on the general aviation sector.

General Comment

It must also be pointed out that it is misleading for AsA to report a "Weighted Average" increase in prices as this is not relevant for most operators who do not fly to or from those airports in conformity with the formula used to calculate the weighted average. For example, the increase in charges for terminal navigation in the year commencing 1 July 2008 at Bankstown and Camden is 10% against a weighted average of 0.2%. SMABC believes that ACCC should pay no attention to the figures quoted as "Weighted Average" increases, and AsA should be told not to quote such figures in discussions or as justification for its increases.